Business “Ethics”

Moral Mazes (one of my very favorite books) tells the story of a company, chosen essentially at random, and through careful investigation from top to bottom explains precisely how it operates, with the end result of explaining how so many well-intentioned people can end up committing so much evil.

This week’s scene takes place inside a textile processing plant at Weft Corporation, where the company’s poor low-paid workers are suffering from byssinosis. Byssinosis, also called Brown Lung Disease, is when your lungs fill up with cotton dust. Eventually your throat closes up and you suffocate to death. The company insists the whole thing is a stunt made up by Ralph Nader and other liberal do-gooders. But one day they change their tune:

Weft, as well as all the other large and medium-sized American textile companies, was actually addressing the cotton dust problem, but in a characteristically indirect way. As part of a larger modernization effort, the firm invested $20 million in a few plants where executives knew such an investment would make money. … The investment had the side benefit of reducing cotton dust levels … One manager who was in charge of the project … comments on whether dust control was a principal factor in the decision…:

No, definitely not. Would any sane, rational man spend $15 million for a 2 percent return? … Now it does improve the dust levels, but it was that if we don’t invest the money now, we would be in a desperate [competitive] position fifteen years from now. … It was on these bases that the decision was made.

Publicly, of course, Weft Corporation, as do many other firms, claims that the money was spent entirely to eliminate dust, evidence of its corporate good citizenship. Privately, executives admit that without the productive return, they would not have—indeed, given the constraints under which they operate—could not have spent the money. And they have not done so in several other plants and only with great reluctance, if at all, in sections of otherwise renovated plants where it is more difficult to … achieve simultaneous cost and dust reduction.

(Robert Jackall, *Moral Mazes*, 158f)

What does Jackall mean that the executives “could not have spent the money … given the constraints under which they operate”? Another story in the book about the chemical corporation Alchemy illustrates his point:

Consider, for instance, the case of a large coking plant of the chemical company. [Coking is a chemical process for distilling coal.] Coke making requires a giant battery to cook the coke slowly and evenly for long periods; the battery is the most significant piece of capital equipment in a coking plant. In 1975, the plant’s battery showed signs of weakening and certain managers at corporate headquarters had to decide whether to invest $6 million to restore the battery to top form. Clearly, because of the amount of money involved, this was a gut decision.

No decision was made. The CEO had sent the word out to defer all the unnecessary capital expenditures to give the corporation cash reserves for other investments. So the managers allocated small amounts of money to patch the battery up until 1979, when it collapsed entirely. This brought the company into breach of contract with a steel producer and into violation of various Environmental Protection Agency (EPA) pollution regulations. The total bill, including lawsuits and now federally mandated repairs to the battery, exceeded $100 million. I have heard figures as high as $150 million, but because of “creative accounting,” no one is sure of the exact amount.

This simple but very typical example gets to the heart of how decision making was intertwined with a company’s authority structure and advancement patterns. … Had they acted decisively in 1975—in hindsight, the only substantively rational choice—they would have salvaged the battery and saved their company millions of dollars in the long run.

In the short run, however, …. they would have been taking serious personal risks in restoring the battery. … their political networks might have unraveled, leaving them vulnerable to attack. … A manager at Weft Corporation reflects:

People are always calculating how others will see the decisions they make. … They know that they have to gauge not just the external … market consequences of a decision, but the internal political consequences. And sometimes you can make the right market decision, but it can be the wrong political decision.

(*Mazes*, 81-84)

Had the manager in charge of the plant with the ailing battery done the replacement, his department would be six million dollars less profitable. When it came time to compare managers for the next promotion, he would seem massively less efficient than the guy running the plant next door. He’d be passed by and his corporate ascendency would be over.

Corporate managers simply aren’t allowed to be moral, or even reasonable. And those who try are simply weeded out. Not only does the manager who replaced the battery get passed over for the job; the manager who was obedient enough not to gets promoted to a more powerful position.

You should follow me on twitter [here](#).

December 11, 2006